

FBU Pensions Bulletin



www.fbu.org.uk

February 2012 • Number 6

PENSION'S HEADS OF AGREEMENT: UNACCEPTABLE

FBU says government pension proposals are simply not good enough

The Fire Brigades Union's Executive Council has carefully examined the government proposals for fire service pensions and concluded that they are unacceptable. We are disappointed that the significant body of evidence presented by the FBU during the discussions with government appears to have been ignored.

The FBU believes that these proposals are unacceptable because they include:

- Unaffordable and unfair contribution rates.
- A totally unrealistic retirement age for firefighters.
- An unsustainable scheme for the fire service.

Unaffordable contribution increases

The government's proposals to increase pension contributions are unfair. Starting from April this year, they expect:

- Wholetime firefighters to pay nearly **£1,000** a year extra towards our pensions
- Retained firefighters to pay nearly **£500** extra a year towards our pensions
- Officers to pay **£2,000** or more extra a year

Firefighters already pay the highest rates in the public sector and twice what is paid in the private sector.

Unrealistic retirement age

A normal pension age of 60 for firefighters is unworkable. Everyone in the fire and rescue service agrees that 60 year olds can't work as frontline firefighters. Most will struggle to maintain operational fitness at that age. The public don't want increasingly elderly firefighters trying to rescue them.

Unworkable new scheme

The new scheme cannot work because all the costings assume a Normal Pension Age of 60. The government needs to rethink this and base the costs around the age firefighters can feasibly work to.

The government's plans to increase contributions will not deliver the financial savings it hopes. There is a real danger these huge hikes will trigger an exodus from the scheme. The entire scheme could rapidly become unstable as firefighters simply cannot afford the increases and instead choose to opt out.

What next?

The FBU will consult members. The Executive Council recommends that members endorse the view that the proposals are unacceptable and there is a rapid move to prepare a strike ballot based on the position set out previously in writing to ministers throughout the UK that members require the following amendments applicable to pension schemes in the fire service as the only amendments concerning those schemes:

- Amendments to ensure that all members covered by the Grey Book are entitled to be members of the relevant Firefighters Pensions Scheme (FPS)/ New Firefighters Pension Scheme (NFPS).
- Amendments to ensure that the normal retirement age for firefighter members is that applicable in the relevant firefighters' pension scheme.
- Amendments to secure RPI as the basis for increasing pensions in the fire service.

We have not received agreement to this position from the UK government or any of the devolved administrations in relation to the relevant FPS, NFPS or LGPS schemes.

The Executive Council will finalise the details of this after consulting members. The FBU never rushes into a ballot for national strike action and has constructively engaged in all talks. The union remains committed to maintaining dialogue and there is still time for government to address the evidence we have presented to them and to salvage the situation.

Firefighters' Pension Scheme: Heads of Agreement

FBU comments: this is not a Heads of Agreement because nothing has been agreed in any way by the FBU. This document is a set of proposals from government.

This document sets out the Heads of Agreement¹ on the parameters to govern scheme design for the Firefighters' Pension Scheme in England to be introduced from April 2015 ('the 2015 scheme'). This sets out the Government's final position on the main elements of scheme design, provided that agreement can be reached on the core parameters, which unions have agreed to take to their Executives following discussions. To that end, further work will take place over the coming weeks, and Executives can consult their members as appropriate. The Government and the fire service unions remain committed to maintaining a constructive dialogue during discussions over the detailed elements of the scheme design, and whilst members are being consulted. Discussion and analysis will take place through the Pension Reform Group for the Firefighters' Pension Scheme.

The FBU does not accept this is the government's "final position". There is a clear threat that they might impose a worse scheme. The FBU believes there is still time for negotiations and is willing to discuss.

Accrued rights protection guarantee

1. There will be full statutory protection for accrued rights for all members as follows:
 - a. all benefits accrued under final salary arrangements will be linked to the members' final salary, in accordance with the rules of the members' current schemes, when they leave the reformed scheme
 - b. full recognition of a members' expectation to double accrual for service accrued under the Firefighters' Pension Scheme 1992 ('the 1992 scheme'), so that a members' full continuous pensionable service upon retirement will be used to calculate an averaged accrual rate to be applied to service accrued under the 1992 scheme
 - c. members to be able to access their 1992 scheme benefits when they retire at that scheme's ordinary pension age (i.e. from age 50 with 25 or more years pensionable service), subject to abatement rules for that scheme. Pensionable service for the purpose of calculating the ordinary pension age will include any continuous pensionable service accrued under both the 1992 scheme and the 2015 scheme
 - d. members will continue to have access to an actuarially assessed commutation factor for benefits accrued under the 1992 scheme

This simply means the government cannot legally take away what you've already paid for.

Transitional protection

2. There will be statutory based transitional protections for certain categories of members, as follows:
 - a. all active scheme members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by the member remaining in their current scheme until they retire.

This is not adequate protection – it means members with 10 years or less until retirement will have to pay more for the "privilege" of retiring when they planned to. Government has indicated that "protected" members will pay ever higher contributions, reaching 14.2% of salary from 2015 until retirement – at least £8,000 extra for those with 10 years left (£900 a year). Watch managers would pay an extra £1,200 a year; station managers an extra £1,900; group managers an extra £2,500 a year; and area managers £3,300 a year more. Retained members in the NFPS may end up paying between £1,400 and £3,600 more over ten years.

- b. there will be a further 4 years of tapered protection for scheme members. Members who are up to 14 years from their current Normal Pension Age, as of 1 April 2012, will have limited protection so that on average for every month of age they are beyond 10 years of their Normal Pension Age, they gain about 53 days of protection. The last day of protected service for any member will be 31 March 2022. At the end of the protected period, they will be transferred into the new pension scheme arrangements...



¹This is the full text of the heads of agreement in black. Only references to annexes have been removed. These annexes are available on the CLG website, with the rest of the document. FBU comments in red. <http://www.communities.gov.uk/documents/fire/pdf/2086582.pdf>

Main scheme design parameters for a new Firefighters' Pension Scheme

3. The main parameters of the new scheme from 2015 are set out below. Discussions will continue on a number of areas...

The government still plans to increase contributions from April 2012. If it sticks to its proposals made on 9 September 2011, then every firefighter would pay more from this April.

FPS – wholetime	New rate	Extra contributions
Firefighter	12.3%	£367
Crew manager	12.3%	£406
Watch manager	12.4%	£489
Station manager	12.6%	£770
Group manager	12.8%	£1,003
Area manager	13.0%	£1,294

NFPS	New rate	Extra contributions
Retained (£10,000 pensionable pay)	9.1%	£132
Wholetime firefighter	9.1%	£169
Wholetime crew manager	9.3%	£250
Wholetime watch manager	9.3%	£280

- a. a pension scheme design based on career average revalued earnings

Career average revalued earnings (CARE) means that your pension is calculated as a percentage of the average of all your pensionable earnings for each year that you contributed to the scheme.

- b. a provisional accrual rate of 1/58.7th of pensionable earnings each year, subject to further agreement on the outstanding issues set out in Annex B

How much pension you earn each year is determined by the accrual rate. The lower the bottom number of that fraction, the more of your salary you earn for each year of service. The FBU does not believe 1/58.7th is an adequate accrual rate for the firefighters' scheme.

- c. there will be no cap on how much pension can be accrued
- d. a revaluation rate of active members' benefits in line with average weekly earnings

Average weekly earnings (AWE) is an index of pay rises across the economy. In the past average earnings was

considered the best index to revalue pensions. However since the recession of 2008, this has changed. Such long term predictions need careful consideration based on the best expert advice.

- e. pensions in payment and deferred benefits to increase in line with Prices Index (currently CPI)

The Consumer Prices Index (CPI) is a worse measure of inflation, because it excludes key costs like housing. The government previously used the Retail Prices Index (RPI), but changed to CPI last year without negotiation. The Hutton report said the switch from RPI to CPI cuts pension benefits by 15%. The FBU and other unions took a court case to reverse this decision. It is currently pending appeal.

- f. average member contributions of 13.2% from April 2015, with some protection for new entrants. However, as announced by the Chief Secretary to the Treasury on 20 December, the Government will review the impact of the proposed 2012-13 contribution changes, including the effect of membership opt-outs, before taking final decisions on how future increases will be delivered in 2013-14 and 2014-15, and in the new scheme. Interested parties will have a full opportunity to provide evidence and their views to the Government as part of the review.

Average member contributions of 13.2% from 2015 means every firefighter will pay more than they do now in pension contributions.

Members of the NFPS face a huge hike – from 8.5% now - up by a whopping 4.7%. That's £1,325 extra a year, every year for the rest of a wholetime firefighter's career.

It is at least £470 extra a year, every year for the rest of a retained firefighter's career.

The FBU says this is simply unfair for most firefighters and has warned the government that members may opt out of pension schemes.

The government is currently reviewing the impact of opt-outs.

- g. flexible retirement from the scheme's minimum pension age of 55, built around the scheme's normal pension age of 60, with members able to take their pension from minimum pension age as follows:

A Normal Pension Age (NPA) of 60 is the biggest sticking point. The government has not produced any evidence to

support their plan for firefighters to retire at 60. Firefighters know it is not sustainable.

An NPA of 60 also makes the new scheme unworkable. All the calculations based on it simply will not work. The government should first establish the right NPA and then design a fair scheme around it.

– for all active members who are aged 57 or more at retirement, 2015 scheme benefits taken before Normal Pension Age will be actuarially reduced with reference to the 2015 scheme's Normal Pension Age, rather than the deferred pension age

This is a smokescreen. The government is trying to create the impression that people will be able to retire with a slightly reduced pension from 57.

If an active member retires at age 57, then a reduction of around 15% will be applied. If the member's accrued pension at age 57 was £17,445 a year before the reduction, then the pension after reduction would be £14,828.

– all other members will have their 2015 scheme benefits actuarially reduced on a cost neutral basis from the scheme's deferred pension age

If an active member retires at age 56, then a reduction of around 60% will be applied. If the member's accrued pension at age 56 was £16,964 a year before the reduction, then the pension after reduction would be £6,786.

h. the Normal Pension Age will be subject to regular review. These reviews will consider the increasing State Pension Age and any changes to it, alongside evidence from interested parties, including unions and employers. It will consider if the Normal Pension Age of 60 remains relevant, taking account of the economical, efficient and effective management of the fire service, the changing profile of the workforce and the occupational demands of, and fitness standards for, firefighting

This is a concession from the government because of the FBU's evidence. The FBU wants the government to commit to a review now that would include revising the whole scheme if an NPA of 60 is shown to be unsustainable.

- i. this regular review will be informed by such research carried out by the Firefighters' Pension Committee, which will monitor and collate scheme data and experience
- j. late retirement factors for members retiring from active service to be actuarially neutral from Normal Pension Age

- k. a deferred pension age equal to the individuals' State Pension Age
- l. optional lump sum by commutation at a rate of £12 for every £1 per annum of pension foregone in accordance with HMRC limits and regulations

The FBU disagrees with the government's assumptions and has raised concerns that people won't commute, thereby costing the scheme. The union has raised numerous concerns about 12:1 being too low.

- m. abatement in existing schemes to continue
- n. ill-health retirement benefits to be based on the arrangements in the 2006 scheme
- o. all other ancillary benefits to be based on those contained in the 2006 scheme
- p. members rejoining after a period of deferment of less than 5 years can link new service with previous service, as if they had always been an active member
- q. members transferring between public service schemes would be treated as having continuous active service
- r. an employer contribution cap and floor as set out below.

4. For the purposes of the reform design process for 2015, the Government previously set out the gross cost ceiling of 27.0% and the net cost ceiling of 13.8%... [The Government Actuaries Department has confirmed] that the expected cost of the proposed scheme design above is within the cost ceiling. This report has been prepared in accordance with the advice in the Government Actuary's Department's report of 7 October 2011: Cost ceilings for scheme level discussions: Advice on data, methodology and assumptions, with suitable adaptations to take account of scheme specific circumstances.

The government delayed publishing its cost ceiling until 8 December after taking some account of the FBU's arguments. However this cost ceiling is unworkable, particularly as it assumes a Normal Pension Age of 60. It still leaves firefighters paying 13.2% of salary – the highest in the public sector.

- 5. The scheme design parameters have been reviewed by HM Treasury who have agreed the approach taken to risk management.
- 6. This agreement also covers arrangements for an employers cost cap and floor, and a 25 year guarantee...

A government today cannot "guarantee" future governments will not worsen pension provision. The previous government promised that the 2006 changes would be the last.